

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Traverse City Downtown Dev. Auth.	County Grand Traverse
Fiscal Year End 6/30/07	Opinion Date 8/31/07	Date Audit Report Submitted to State 10/7/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

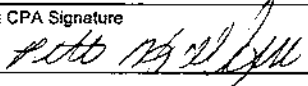
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC		Telephone Number 616 460 9388	
Street Address 4001 Granada Ct.		City Grand Rapids	State MI
		Zip 49534	
Authorizing CPA Signature 		Printed Name Peter Haefner, CPA	
		License Number 11020003198	

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT  
AUTHORITY**

**(A Discrete Component Unit of the  
City of Traverse City, Michigan)**

**Traverse City, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2007**

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the  
City of Traverse City, Michigan)**

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## *Vredeveld Haefner LLC*

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### INDEPENDENT AUDITORS' REPORT

August 31, 2007

Members of the Board of Trustees  
City of Traverse City Downtown Development Authority  
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Traverse City Downtown Development Authority, a discrete component unit of the City of Traverse City, Michigan (the "Authority") as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2007, and the respective changes in financial position, and the budgetary comparisons for the general fund, TIF 2 and TIF 97 special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vredeveld Haefner LLC*

## Management's Discussion and Analysis

As management of the *Downtown Development Authority* (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2007.

### Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$4,544,131 (*net assets*). This amount (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,042,788.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,734,033, an increase of \$563,576 in comparison with the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Authority's governmental activity is economic development. The Authority has no business-type activities.

The government-wide financial statements include only the Authority itself. The Authority has no legally separate component units for which the Authority is financially accountable.

The government-wide financial statements can be found on pages 6-7 of this report.

### Fund Financial Statements

A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority only has governmental funds. The Authority does not maintain enterprise or fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all three funds; the General Fund, TIF 2 and TIF 97 Special Revenue Funds, each of which are considered to be major funds.

The Authority adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 8-14 of this report.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-22 of this report.

#### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$4,544,131 at the close of the most recent fiscal year.

#### Downtown Development Authority's Net Assets

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
<b>Governmental activities</b>		
Current and other assets	\$ 4,605,091	\$ 2,530,073
Capital assets	-	126,502
Total assets	4,605,091	2,656,575
Current liabilities	5,544	106,716
Non-current liabilities	55,416	48,516
Total liabilities	60,960	155,232
Net assets		
Invested in capital assets	-	126,502
Restricted	4,338,970	2,191,040
Unrestricted	205,161	183,801
<b>Total net assets</b>	<b>\$ 4,544,131</b>	<b>\$ 2,501,343</b>

The Authority's net assets reflects its restricted net assets for future expenditures within the guidelines of the tax increment finance district plans and unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets.

**Governmental activities.** The Authority's net assets increased by \$2,042,788. Key highlights are as follows:

- Increase in net assets over prior year increased approximately \$2,000,000 attributed to (1) recognition of Brownfield revenues approved by the State and Local Brownfield Board of Commissioners in the amount of approximately \$1,500,000 and (2) increase in captured property taxes in the tax increment finance districts in the amount of approximately \$200,000.

#### **Downtown Development Authority's Changes in Net Assets**

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
<b>Governmental activities</b>		
Program revenues		
Charges for services	\$ 579,894	\$ 575,926
Operating grants	1,486,112	497,203
General revenues		
Property taxes	1,526,420	1,322,407
Unrestricted investment earnings	<u>5,778</u>	<u>38,932</u>
Total revenue	3,598,204	2,434,468
Expenses		
Economic development	<u>1,555,416</u>	<u>1,262,565</u>
Increase in net assets	2,042,788	1,171,903
Net assets – beginning of year	<u>2,501,343</u>	<u>1,329,440</u>
<b>Net assets – end of year</b>	<b><u>\$ 4,544,131</u></b>	<b><u>\$ 2,501,343</u></b>

#### **Financial Analysis of the Government's Funds**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,734,033, an increase of \$563,576, in comparison with the prior year. Approximately \$1,471,000 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$244,023. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 49 percent of total general fund expenditures.

During the current fiscal year, the fund balance of the Authority's General Fund increased by \$28,260. This increase was attributed to actual revenues exceeding budget by \$36,593 and actual expenditures being under the amended budget by \$24,267.

The TIF 2 Special Revenue Fund has a total fund balance of \$869,412 which increased by \$530,975 during the year. The increase in fund balance was attributed to an increase in captured property taxes while minimal expenditures were incurred.

The TIF 97 Special Revenue Fund has a fund balance for the current year of \$604,044, which increased \$4,341 during the year. The increase in fund balance was attributed to an increase in captured property taxes and actual expenditures exceeding amended budget by \$22,551.

### **Budgetary Highlights**

The Board amended the TIF 97 Fund expenditure budget upward by approximately \$230,000 with the majority \$215,000 for Opera House renovations.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Authority's budget for the 2007-08 fiscal year:

- The DDA board in the upcoming year will be investigating the primary recommendation of the Downtown Market Analysis report, creating a non-profit corporation that may assume some parts of the DDA functions.
- Various capital improvements in the TIF 97 and TIF 2 Funds including repairs to existing crosswalks, utility improvements in the West Front Street area, continued work on the Pine Street pedestrian way, engineering and architectural expenditures for public parking improvements, streetscape improvements and bridge repair.

### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority's Executive Director, Bryan Crough, 303 State Street, Traverse City, Michigan.



## **FINANCIAL STATEMENTS**

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Net Assets**  
**June 30, 2007**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,713,604
Due from other governments	2,889,633
Prepaid expenses	<u>1,854</u>
<b>Total assets</b>	<u><b>4,605,091</b></u>
<b>Liabilities</b>	
Accounts payable	4,117
Accrued expenses and other liabilities	1,427
Non-current liabilities	
Due in more than one year	<u>55,416</u>
<b>Total liabilities</b>	<u><b>60,960</b></u>
<b>Net assets</b>	
Restricted for tax increment finance districts	4,338,970
Unrestricted	<u>205,161</u>
<b>Total net assets</b>	<u><b>\$ 4,544,131</b></u>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Activities**  
**For the Year Ended June 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating grants</u>	
Economic development	<u>\$ 1,555,416</u>	<u>\$ 579,894</u>	<u>\$ 1,486,112</u>	\$ 510,590
General revenues				
Unrestricted property taxes				65,641
Restricted property taxes for tax increment finance districts				1,460,779
Unrestricted investment earnings				<u>5,778</u>
<b>Total general revenues</b>				<u><b>1,532,198</b></u>
<b>Change in net assets</b>				<b>2,042,788</b>
Net assets, beginning of year				<u>2,501,343</u>
<b>Net assets, end of year</b>				<u><b>\$ 4,544,131</b></u>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
(A Discrete Component Unit of the City of Traverse City, Michigan)

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

		<b>Special Revenue Funds</b>		<b>Total</b>
	<b>General Fund</b>	<b>TIF 2 Fund</b>	<b>TIF 97 Fund</b>	<b>Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 213,922	\$ 882,784	\$ 616,898	\$ 1,713,604
Due from other governments	22,689	325,560	2,541,384	2,889,633
Prepaid expenditures	1,854	-	-	1,854
Due from other funds	27,032	-	-	27,032
<b>Total assets</b>	<b>\$ 265,497</b>	<b>\$ 1,208,344</b>	<b>\$ 3,158,282</b>	<b>\$ 4,632,123</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,493	\$ -	\$ 624	\$ 4,117
Accrued expenditures and other liabilities	1,427	-	-	1,427
Due to other funds	-	13,516	13,516	27,032
Deferred revenue	-	325,416	2,540,098	2,865,514
<b>Total liabilities</b>	<b>4,920</b>	<b>338,932</b>	<b>2,554,238</b>	<b>2,898,090</b>
<b>Fund balances</b>				
Reserved for prepaid expenditures	1,854	-	-	1,854
Unreserved				
Designated	14,700	-	246,568	261,268
Undesignated	244,023	869,412	357,476	1,470,911
<b>Total fund balance</b>	<b>260,577</b>	<b>869,412</b>	<b>604,044</b>	<b>1,734,033</b>
<b>Total liabilities and fund balances</b>	<b>\$ 265,497</b>	<b>\$ 1,208,344</b>	<b>\$ 3,158,282</b>	<b>\$ 4,632,123</b>

Continued.....

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
(A Discrete Component Unit of the City of the Traverse City, Michigan)

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

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**Reconciliation of fund balances on the balance sheet for governmental funds to  
net assets of governmental activities on the statement of net assets**

Fund balances	\$ 1,734,033
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Other non-current assets are not available to pay for current period  
expenditures and, therefore, are deferred in the funds

Add: deferred revenue	2,865,514
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Certain liabilities are not due and payable in the current period and therefore  
are not reported in the funds.

Deduct: accrued compensated absences	<u>(55,416)</u>
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<b>Net assets of governmental activities</b>	<b><u>\$ 4,544,131</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
(A Discrete Component Unit of the City of Traverse City, Michigan)

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

		<b>Special Revenue Funds</b>		<b>Total</b>
	<b>General Fund</b>	<b>TIF 2 Fund</b>	<b>TIF 97 Fund</b>	<b>Governmental Funds</b>
<b>Revenues</b>				
Property taxes	\$ 65,641	\$ 588,727	\$ 872,052	\$ 1,526,420
Reimbursements	443,693	-	161,000	604,693
Rental income	36,480	-	-	36,480
Interest income	5,779	30,731	33,790	70,300
<b>Total revenues</b>	<b>551,593</b>	<b>619,458</b>	<b>1,066,842</b>	<b>2,237,893</b>
<b>Expenditures</b>				
Salaries	355,893	-	-	355,893
Fringe benefits	91,634	-	-	91,634
Office supplies and utilities	27,058	405	2,295	29,758
Professional services	24,265	88,078	178,962	291,305
Travel, promotion and conferences	12,411	-	-	12,411
Repairs and maintenance	1,821	-	-	1,821
Rentals	8,481	-	-	8,481
Contributions to other governments	-	-	881,244	881,244
Capital outlay	1,770	-	-	1,770
<b>Total expenditures</b>	<b>523,333</b>	<b>88,483</b>	<b>1,062,501</b>	<b>1,674,317</b>
<b>Net change in fund balances</b>	<b>28,260</b>	<b>530,975</b>	<b>4,341</b>	<b>563,576</b>
Fund balances, beginning of year	232,317	338,437	599,703	1,170,457
<b>Fund balances, end of year</b>	<b>\$ 260,577</b>	<b>\$ 869,412</b>	<b>\$ 604,044</b>	<b>\$ 1,734,033</b>

Continued....

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

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**Reconciliation of the statement of revenues, expenditures and changes in  
fund balances for governmental funds to the statement of activities**

Net change in fund balances	\$ 563,576
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Amounts reported for governmental activities in the Statement of Net Assets are different  
because:

Noncurrent assets recorded on the fund statements are not available to fund current year  
operations and are deferred in the funds.

Add: additions to non-current assets	1,647,112
Deduct: payments received on non-current assets	(161,000)

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in the funds.

Deduct: increase in accrued compensated absences	<u>(6,900)</u>
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<b>Change in net assets</b>	<b><u>\$ 2,042,788</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget to Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 65,000	\$ 65,000	\$ 65,641	\$ 641
Local grant revenue	15,000	15,000	-	(15,000)
Reimbursements	399,000	399,000	443,693	44,693
Rental income	32,000	32,000	36,480	4,480
Interest income	4,000	4,000	5,779	1,779
<b>Total revenues</b>	<b>515,000</b>	<b>515,000</b>	<b>551,593</b>	<b>36,593</b>
<b>Expenditures</b>				
<b>Economic development</b>				
Salaries	353,000	353,000	355,893	(2,893)
Fringe benefits	96,000	96,000	91,634	4,366
Office supplies and utilities	30,500	30,500	27,058	3,442
Professional services	31,500	31,500	24,265	7,235
Travel, promotion and conferences	23,300	23,300	12,411	10,889
Repairs and maintenance	7,500	7,500	1,821	5,679
Rentals	3,600	3,600	8,481	(4,881)
Capital outlay	2,200	2,200	1,770	430
<b>Total expenditures</b>	<b>547,600</b>	<b>547,600</b>	<b>523,333</b>	<b>24,267</b>
<b>Net change in fund balance</b>	<b>(32,600)</b>	<b>(32,600)</b>	<b>28,260</b>	<b>12,326</b>
Fund balance, beginning of year	232,317	232,317	232,317	-
<b>Fund balance, end of year</b>	<b>\$ 199,717</b>	<b>\$ 199,717</b>	<b>\$ 260,577</b>	<b>\$ 12,326</b>

The accompanying notes are an integral part of these financial statements.



**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget to Actual**  
**Special Revenue Fund - TIF 2**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Property taxes	\$ 594,700	\$ 594,700	\$ 588,727	\$ (5,973)
Interest income	9,500	9,500	30,731	21,231
<b>Total revenues</b>	<u>604,200</u>	<u>604,200</u>	<u>619,458</u>	<u>15,258</u>
<b>Expenditures</b>				
<b>Economic development</b>				
Office supplies and utilities	800	800	405	395
Professional services	105,350	105,350	88,078	17,272
<b>Total expenditures</b>	<u>106,150</u>	<u>106,150</u>	<u>88,483</u>	<u>17,667</u>
<b>Net change in fund balance</b>	<u>498,050</u>	<u>498,050</u>	<u>530,975</u>	<u>(2,409)</u>
Fund balance, beginning of year	<u>338,437</u>	<u>338,437</u>	<u>338,437</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 836,487</u>	<u>\$ 836,487</u>	<u>\$ 869,412</u>	<u>\$ (2,409)</u>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget to Actual**  
**Special Revenue Fund - TIF 97**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Property taxes	\$ 880,750	\$ 880,750	\$ 872,052	\$ (8,698)
Reimbursements	166,500	166,500	161,000	(5,500)
Interest income	17,600	17,600	33,790	16,190
<b>Total revenues</b>	<u>1,064,850</u>	<u>1,064,850</u>	<u>1,066,842</u>	<u>1,992</u>
<b>Expenditures</b>				
Economic development				
Office supplies and utilities	2,100	2,100	2,295	(195)
Professional services	92,000	106,700	178,962	(72,262)
Contribution to other governments	716,150	931,150	881,244	49,906
<b>Total expenditures</b>	<u>810,250</u>	<u>1,039,950</u>	<u>1,062,501</u>	<u>(22,551)</u>
<b>Net change in fund balance</b>	<u>254,600</u>	<u>24,900</u>	<u>4,341</u>	<u>24,543</u>
Fund balance, beginning of year	<u>599,703</u>	<u>599,703</u>	<u>599,703</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 854,303</u>	<u>\$ 624,603</u>	<u>\$ 604,044</u>	<u>\$ 24,543</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** - The Downtown Development Authority (the "Authority"), a discrete component unit of the City of Traverse City (the "City"), was created in September 1978 by the City Commission pursuant to Act No. 197 of the Public Acts of 1975 of the State of Michigan. It operates through a Board of Trustees (the "Board") consisting of the Mayor of the City of Traverse City and eleven members approved by the City Commission. The purpose of the Authority is to correct and prevent deterioration of the Downtown Development District, encourage historic preservation, create and implement development plans, and promote economic growth.

The Authority is a discrete component unit of the City because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City's financial statements.

**Government-wide and Fund Financial Statements** - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** - The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the years for which they are levied.

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *TIF 2 and TIF 97 Special Revenue Funds* account for financial resources that are legally restricted for activities within specific districts of the Downtown Development Authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

**Capital Assets** – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported as the City's capital assets.

**Accrued compensated absences** - Employees are granted vacation and sick leave in varying amounts based on length of service. Annually unused vacation is reduced to a maximum of five weeks. Sick leave accumulates and is paid to employees at the time of retirement at one-half of total days accumulated up to a maximum of 120 days (60 paid days). The estimated amount due to employees as of June 30, 2007 is accrued in the government-wide financial statements.

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represents tentative plans for the use of resources made by the Board.

**Budgetary Information** – The General and special revenue funds are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds. The budget is then adopted by the Authority's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Professional services were reimbursed from the TIF 2 and TIF 97 in the amount of \$25,000 each, to the City's General Fund.
- The budget document presents information by fund, function, department and activity. The legal level of budgetary control adopted by the governing board is function level, which is the level at which expenditures may not legally exceed appropriations.

For the year ended June 30, 2007, the TIF 97 Special Revenue Fund expenditures exceeded appropriations by \$22,551. These over expenditures were funded by excess revenues.

**2. CASH AND CASH EQUIVALENTS**

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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The Authority's deposits and investment policy are in accordance with statutory authority.

The Authority's cash and cash equivalents are cash on hand and demand deposits with a bank.

The Authority's cash and cash equivalents are comprised of bank deposits with a balance of \$1,713,554 and petty cash of \$50 at June 30, 2007.

**Deposits**

The State does not require and the DDA has not adopted a policy regarding custodial credit risk.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$1,731,279. \$1,631,279 was subject to custodial credit risk because it is uninsured and uncollateralized.

**3. RECEIVABLES**

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. This deferred revenue consists of taxes that will be captured in the future by the Brownfield tax districts to reimburse for costs incurred in this and past fiscal years for economic development. At the end of the current fiscal year, the various components of deferred revenue amounted to \$2,865,514. The remaining receivable amount of \$24,119 will be collected within one year.

**4. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated –				
Construction in progress	<u>\$ 126,502</u>	<u>\$ -</u>	<u>\$ 126,502</u>	<u>\$ -</u>

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

**5. INTERFUND PAYABLES AND RECEIVABLES**

The composition of interfund balances is as follows as of June 30, 2007:

<u>Due From</u>	<u>Due To</u> General Fund
Special Revenue Funds	
TIF 2	\$ 13,516
TIF 97	<u>13,516</u>
	<u><b>\$ 27,032</b></u>

Amounts represent administrative expenses payable to the General Fund from the TIF 2 and TIF 97 special revenue funds.

**6. NON-CURRENT LIABILITIES**

Changes in non-current liabilities consist of the following:

	<u>Balance</u> <u>07/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/07</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Accrued compensated absences	\$48,516	\$ 25,373	\$ 18,473	\$55,416	\$ -

Compensated absences are generally liquidated by the General Fund.

**7. COMMITMENTS**

The 2007 City of Traverse City Downtown Development Tax Exempt Refunding Bonds and the 2002B City of Traverse City Downtown Development Taxable Bonds are reported on the City of Traverse City financial statements. The Downtown Development Authority has pledged tax increment revenues for the payment of these bonds. The Downtown Development Authority provides these tax increment revenues to the City less the developer required contribution for bond payment. The City has pledged its limited tax full faith and credit for the payment of the principal and interest on the bonds. The following are the obligations expected to be paid from the collection of tax increment revenues in the Tax Increment Financing and Development Plan No. 97:

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
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**Notes to Financial Statements**

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<b><u>Fiscal Year</u> <u>End</u></b>	<b><u>Amount</u></b>
2008	\$ 685,834
2009	662,913
2010	652,198
2011	651,203
2012	675,045
2013-2017	3,828,401
2018-2022	4,690,656
2023-2027	4,921,400
2028	<u>859,031</u>
<b>Total</b>	<b><u>\$ 17,626,681</u></b>

**8. PROPERTY TAXES**

The government's property taxes are levied each July 1 on the taxable valuation of applicable property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year. Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. The taxable value for real and personal property in the Downtown Development Authority for the 2006 levy is \$36,207,579. The Authority's general operating tax rate for fiscal year 2006-07 was 1.8038 mills.

Property tax revenue for the TIF's, which are included in the Downtown Development Authority, is derived pursuant to two tax increment financing agreements, TIF 2 and TIF 97, between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing districts. The City bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property at March 1 are purchased and collected by Grand Traverse County. Collection of delinquent personal property tax remains the responsibility of the City of Traverse City. Property tax revenue is recognized when levied in the government-wide financial statements, and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the tax increment financing authority districts to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1985 for TIF 2 (\$3,089,321) and 1997 for TIF 97 (\$32,860,088). The base year on other properties is determined by the date of entry into the district. The fiscal year 2006-07 captured taxable value for TIF 2 is \$22,760,557 and TIF 97 is \$33,817,397.



**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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**9. RENTAL AND REIMBURSEMENT INCOME**

The Authority entered into two contracts, one from September 1, 2005 to August 31, 2006 and another from September 1, 2006 to August 31, 2007 with the Downtown Traverse City Association (a non-for-profit organization). The Authority provides office space and administrative services to the association for an annual fee of \$47,215 and \$48,630, respectively, payable in equal monthly installments of \$3,935 and \$4,053. Income under these contracts for the year ended June 30, 2007 was \$48,395.

The Authority entered into a contract with the City Opera House in October 2003 whereby the term of the agreement was indefinite. The agreement may be terminated by the Authority for any or no reason upon 90 days prior written notice. Under the terms of this agreement the Authority agrees to operate, manage and maintain the Opera House at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2007 was \$63,480.

The Authority entered into a contract with the State Theatre Group in March 2004 whereby the term of the agreement was indefinite. The agreement may be terminated by either party for any or no reason upon 60 days prior written notice. Under the terms of this agreement the Authority agrees to provide administrative staff support to market, advertise and promote the State Theatre Group in a manner consistent with the goals of the organization at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2007 was \$287.

The Authority entered into a contract on June 19, 2003 with the City of Traverse City in which the Authority will operate and manage the Larry C. Hardy Parking Deck for an annual fee of \$205,200 payable in equal monthly installments of \$17,100. Income under this contract for the year ended June 30, 2007 was \$205,931.

The Authority's General Fund is reimbursed an administrative fee or indirect cost from the TIF Funds as approved in the budget. The fee assessed is twelve percent of General Fund expenditures. The revenue recorded in the General Fund and expenditures in the TIF Funds are eliminated in the government wide financial statements. Income from the administrative fee for the year ended June 30, 2007 was \$125,600.

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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**10. RISK OF LOSS**

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is covered for these risks through the City of Traverse City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Insurance Fund and commercial health insurance. There has been no significant reduction in insurance coverage from the prior year and settlements have not exceed insurance coverage for the past three fiscal years.

**11. RETIREMENT PLAN**

The Authority sponsors the Traverse City Downtown Development Authority Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The administrator of the plan is ICMA Retirement Corporation. The plan is available to all employees. Participants may contribute any amount and the employer will match up to 7% percent based on the employee's employment contract. Plan provision and contribution requirements can only be amended by authorization of the Board of Directors. In fiscal year, 2007 and the Authority contributed \$15,074 and the employees contributed \$19,837 to this plan.

**12. RELATED PARTY TRANSACTION**

The Authority receives banking services for all three of their funds from Fifth Third Bank. The banking services consist primarily of Business Money Market accounts. The Chairman of the Board of Directors is the regional president.

The Authority entered into an appraisal agreement subsequent to fiscal year end for three parcels of land located in Old Town. The land is expected to be used for future public parking. One of the properties being appraised is owned by a member of the Authority's Board of Directors. The Director has abstained himself from all discussion and votes relating to the appraisal agreement.

\* \* \* \* \*



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### **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 31, 2007

Members of the Board of Trustees  
City of Traverse City Downtown Development Authority  
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Traverse City Downtown Development Authority, a discrete component unit of the City of Traverse City, Michigan, (the "Authority") as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority, in a separate letter dated August 31, 2007.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Oradaveld Haefner LLC*



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August 31, 2007

Board of Directors  
City of Traverse City Downtown Development Authority  
Traverse City, MI

In planning and performing our audit of the financial statements of the City of Traverse City Downtown Development Authority (DDA), for the year ended June 30, 2007, we noted certain matters involving internal control and/or operations which we would like to bring to your attention. These matters were reviewed with management and we will review these matters during future audits.

### ACCOUNTING AND FINANCIAL REPORTING

The DDA has a policy that requires two signatures on all checks issued for vendor payments. During our audit, we noted an instance in which this policy was not followed. We suggest that the review of the monthly bank reconciliation be accompanied by a review of the checks issued to assure compliance with the signature policies.

Management's response - As part of the Downtown Development Authority's (Authority) internal control procedures the Treasurer reviews the bank reconciliation completed by the Executive Director. Another procedure will be added to the Treasurer's duties of reviewing all cancelled checks for compliance with the Authority's signature policy of two authorized individuals signing all checks.

During our audit we noted that the board was not always receiving a listing of and approving all disbursement transactions. Current guidance provided by Michigan Department of Treasury requires that the Board review and approve all disbursements regardless of the payment process approved by the Board. We suggest that a listing of all disbursements be provided to the board monthly for review and approval

Management's response - The Executive Director will be supplying a transaction list through the monthly board packet, which will list all disbursement transactions. The transaction list will be reviewed by the individual board members before the board meetings and approved through the consent portion of the meeting.

This report is intended solely for the information and use of the DDA Board and Management of the DDA, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Vredeveld Haefner LLC*